

Missing History's Lesson

The Dot-com bust

VS.

the Housing bust

I find it amazing how history can repeat itself—especially negative history. The on-going national housing correction and mortgage meltdown is the current harmful lesson being repeated. What makes it even more amazing is the closeness to the previous negative dot-com bubble from which we should have learned our lesson.

I'm not talking about comparing the current housing bust and correction to a previous housing bust. Instead, I'm talking about the dot-com bust of just a few years ago. We rapidly repeated throwing excess money into a seemingly never-ending economic environment (housing price appreciation), using indiscriminant financing to perpetuate it. The dot-com's technology euphoria and consequential stock market bust were only a year or two removed. Because of that, one can't even say that those lessons were forgotten. Instead, they apparently weren't even learned.

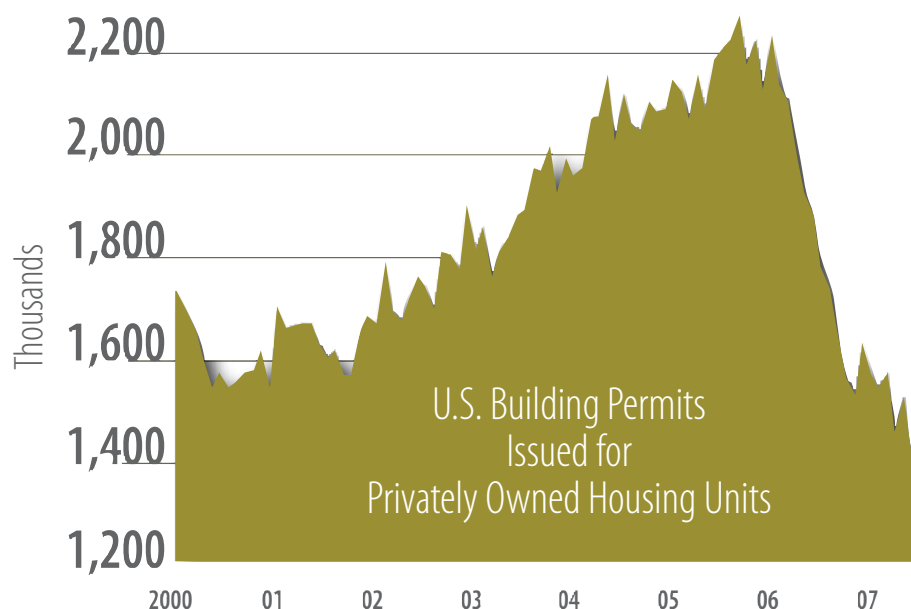
In the late 1990s, the stock market was soaring, and nascent companies with no net earnings at all had exponentially rising stock values. Armchair investors were getting rich. It was becoming evident as early as 1998 that the stock market's rise was based on false value and speculation. But it took another

two years before rationality finally stepped in and brought that market crashing back to Earth.

The dot-com bust and the housing bust are similar in that the flight of investment money from the former helped feed the rise and subsequent fall of the latter. What we should have seen as the pair's common denominator (and thus the housing market's early

warning sign) was the lengthy and irrational price rise that characterized each sector's appeal. The exponential rise in the dot-coms' asset values should have taught us that exponential rises are not only irrational, but always lead to a bust. Was there a lesson we should have learned?

It seems we didn't, because from there we moved right into the housing



Source: U. S. Census Bureau. Seasonally-adjusted.



debacle. We picked up the dot-com template of soaring prices and mindless euphoria and laid it upon the housing market—same scenario, different setting. Home prices in many markets rose by up to 50 percent in just a few years simply by sitting still. Shouldn't this have looked familiar? Apparently not; builders and investors kept going.

It should have been obvious to anyone watching the news early on that the housing market was going down a

path similar to the technology assets. How could the market professionals not have seen this? There were enough foresighted economists early on voicing their warnings. It's not like no one saw this coming. But their audience regarded them as only noise in the wind. It seems that the smell of easy money has a very enticing aroma—one with the ability to dull the other senses.

Unfortunately, housing's consequences could look much like the dot-coms'

landscape. Oh, maybe we won't slip into recession with a prolonged job-loss recovery like the dot-com fallout (since housing woes are more regionalized), but housing and its finance sectors are already a drag on the nation's economic performance. And, there is another round of sub-prime loans set for first-payment resets next year. Hold on. This might be just the beginning. ⓘ